

# SPECIAL NOTICE

March 18, 2003

For further information contact:  
Telephone Information Center  
1-800-647-7706 or (360) 486-2345

Alternate Formats (360) 486-2342  
Teletype 1-800-451-7985

## Reporting Instructions for Composting Facilities

This Special Notice is being distributed to explain the tax application for persons who operate a composting facility.

The business and occupation (B&O) tax applies to every business activity in the state, unless specifically exempt by law. The classifications and tax rates vary depending upon the specific business activity. Composting facilities often receive income from various sources and activities. Generally, the activities of a composting facility include the following.

### **“Tip” Fees for Accepting Yard Waste**

Many composting facilities charge a fee to accept yard waste from private individuals, landscapers, municipalities, or commercial curbside recycling solid waste companies. The composting facility then uses the yard waste as a raw material or an ingredient in the manufacturing or processing of compost. Although the yard waste is a key ingredient used in manufacturing the compost, the tip fee is not received for the manufacture or sale of the compost but is received for the separate activity of accepting the yard waste.

If you charge a fee to accept yard waste, the gross amount you receive from these fees is subject to B&O tax under the **service and other activities** classification.

### **Manufacturing or Processing Waste into Compost**

Processing waste into compost is a manufacturing activity. The manufacturing B&O tax applies to this activity whether the compost is processed for sale or for the manufacturer’s own use. The measure of the tax with respect to manufactured products is the “value of the products” manufactured. This is generally determined by the gross proceeds from the sale of the products.

If the compost is used by the manufacturer instead being sold, the “value of product” subject to manufacturing B&O tax is determined by the retail selling price of similar products of like quality, quantity, and character. In addition, the value of product used (not sold) is subject to use tax, see below.

### **Use Tax on Compost Used By a Composting Facility**

Articles manufactured by a business for its own use are subject to use tax, unless specifically exempt by law. Use tax is a tax on the use of tangible personal property in Washington when sales tax has not been paid. If a composting facility uses the compost it produces rather than selling it, the facility must report the value of that compost on the use tax sections of its Combined Excise Tax Return.

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### **Sales of Compost to Consumers**

If you sell compost to consumers, you must collect retail sales tax, unless a specific exemption applies. In addition, these sales are subject to B&O tax under the retailing classification.

### **Sales of Compost at Wholesale**

Sales of compost to persons other than consumers are subject to **wholesaling** B&O tax. You must document wholesale sales by obtaining a properly completed resale certificate from each buyer. For information regarding resale certificates, refer to WAC 458-20-102.

### **Multiple Activities Tax Credit (MATC)**

When reporting in this manner, it may appear that the B&O tax is paid twice on sales of manufactured products – once under the manufacturing classification and again under one of the selling classifications - retailing or wholesaling. To ensure that you are paying the B&O tax only one time, you may take a multiple activities tax credit (MATC) on the Combined Excise Tax Return.

The credit is equal to the lesser of the manufacturing B&O tax or the retailing/wholesaling B&O tax. To take the credit, you must complete and attach Schedule C. You can obtain a Schedule C on the Department's web site at <http://dor.wa.gov>, or by calling 1-800-647-7706.